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PROFILE
Moose Jaw,
Saskatchewan

FEATURE:
Tax Free
Savings Accounts
(TFSA)

OPINION:
The Continuing
Transformation of
the West

CanadaWest
FOUNDATION

Our Vision
A dynamic and prosperous
West in a strong Canada.

Our Mission
A leading source of strategic
insight, conducting and
communicating non-partisan
economic and public policy
research of importance to
the four western provinces
and all Canadians.

CURRENTS

Western Canada's
Monthly Economic Review
Vol. 2008, No. 3 a **Canada** foundation publication

Monthly Highlights

Nationally, employment growth in February was much higher than expected, keeping Canada's unemployment rate at 5.8%. The labour market in the West remains strong, although Saskatchewan was the only western province that had a notable increase in employment for the month.

In 2007, Alberta and Saskatchewan posted the largest increases in average weekly earnings of all provinces, with Manitoba not far behind. BC, on the other hand, had an increase in average weekly earnings that fell below the national average.

Inflation slowed across the country, despite higher prices for gasoline. Falling vehicle prices were a major factor, especially in Alberta and Saskatchewan. The one percentage point decrease in the GST also dampened inflation.

A significant monthly increase in non-residential building permits in Alberta offset a decline on the residential side. Both residential and non-residential permits in BC and Saskatchewan were lower compared to the prior month.

Compared to the previous year, 2007 retail sales were up 12.7% in Saskatchewan,

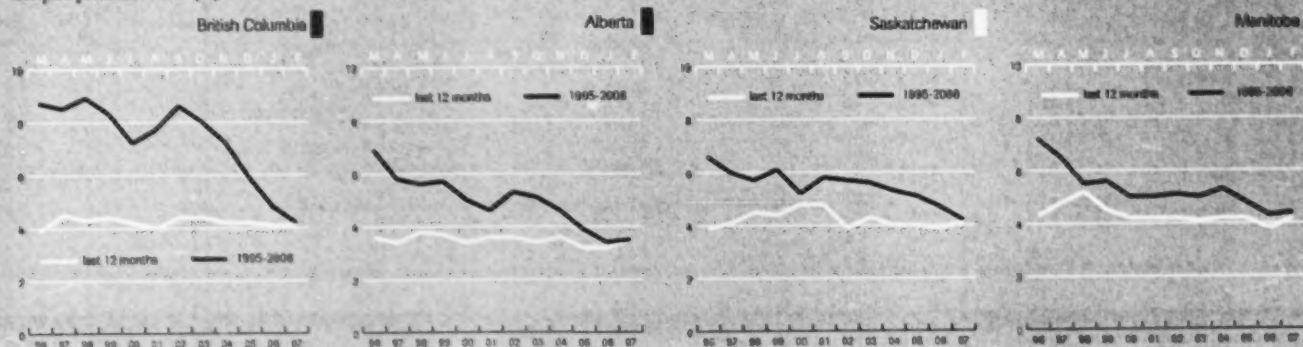
9.0% in Alberta, 9.4% in Manitoba, and 7.1% in BC. In the rest of Canada, retail sales were up 4.3%, half the increase in the West.

In contrast to most of the country, Saskatchewan and Manitoba closed 2007 with an increase in manufacturing sales. A big drop in Ontario was the primary reason for the weak national numbers. Alberta's manufacturing sector posted the fourth decrease in five months.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,303.2	1,994.9	509.0	601.4	17,102.2	February
% change, yoy	2.3	3.0	1.3	1.7	2.2	
Unemployment rate (SA, %)	4.1	3.5	4.1	4.2	5.8	February
Participation rate (SA, %)	66.5	74.5	69.8	69.4	67.8	February
Average weekly earnings (SA, \$)	769.02	860.31	742.62	721.35	782.02	December
% change, Jan-Dec 2007 average, yoy	2.8	4.7	4.5	4.2	3.2	
CPI inflation, annual (%)	0.8	3.6	3.2	1.6	2.2	January
Building permits: residential (SA, \$ millions)	653.0	591.9	81.7	88.1	3,310.6	January
% change, yoy	9.0	21.1	40.7	15.0	8.0	
Building permits: non-residential (SA, \$ millions)	162.3	592.2	37.7	23.9	2,540.4	January
% change, yoy	-51.8	40.4	8.3	37.6	5.2	
Housing starts (SAAR, 000s)	38.9	41.7	6.0	5.8	222.7	January
% change, yoy	5.4	22.8	1.6	34.5	14.5	
Retail trade (SA, \$ millions)	4,818	5,174	1,165	1,236	35,100	December
% change, Jan-Dec, yoy	7.1	9.0	12.7	9.4	5.8	
Wholesale trade (SA, \$ millions)	4,213	5,365	1,274	1,040	42,737	December
% change, Jan-Dec, yoy	5.0	5.9	13.8	8.1	4.7	
Manufacturing sales (SA, \$ millions)	3,395	5,473	943	1,302	48,630	December
% change, Jan-Dec, yoy	-3.2	1.0	1.7	8.1	0.3	

Source: Statistics Canada. yoy=year over year, SA=seasonally adjusted, SAAR=seasonally adjusted at annual rates

Employment Rate (%)



Did you know?

➤ Over 560,000 people (3.4% of the total workforce) moved to a different province or territory between 2001 and 2006. Mobility rates were highest in the territories and Alberta.

➤ The median age of the labour force climbed above 40 years for the first time, rising from 39.5 in 2001 to 41.2 in 2006.

➤ 23% of Canadian adults aged 25 to 64 have a university degree. Canada ranks sixth among OECD countries in this regard.

➤ Just under one quarter of Canadians aged 25 to 64 were born outside Canada. However, this group accounts for 49% of doctorate holders in Canada and 40% of those with a master's degree.

➤ One out of every five Canadians aged 25 to 64 who have completed some form of postsecondary education studied business, management, or marketing.

City in Profile: Moose Jaw, SK

Located in south-central Saskatchewan, roughly 80 km west of Regina on the Trans Canada Highway, is Moose Jaw, Saskatchewan. With roughly 34,000 residents, it is the fourth largest city in the province. The city's downtown has many red brick heritage buildings. After a major fire leveled a large number of downtown buildings in 1891, Moose Jaw made brick or stone construction mandatory.

Moose Jaw's thriving economy is underpinned by agriculture, manufacturing and processing, mining, service, and retail. In addition to its location on the Trans Canada Highway, Moose Jaw has the largest rail terminal between Winnipeg and Calgary. Major businesses in the city include Canadian Pacific Railway, XL Foods, Mosaic Company, The Canadian Salt Co., Saskatchewan Minerals, Doepker Industries Ltd., Bombardier, Saskferco Products, General Cable, and Moose Jaw Refinery. On a number of measures, 2007 was a year of growth for Moose Jaw. Compared to 2006, new home construction was up 34% in 2007 and the value of building permits issued by the city was up 14%.

Moose Jaw was one of five cities nationwide in 2007 to be designated as a *Cultural Capital of Canada* by the Government of Canada.



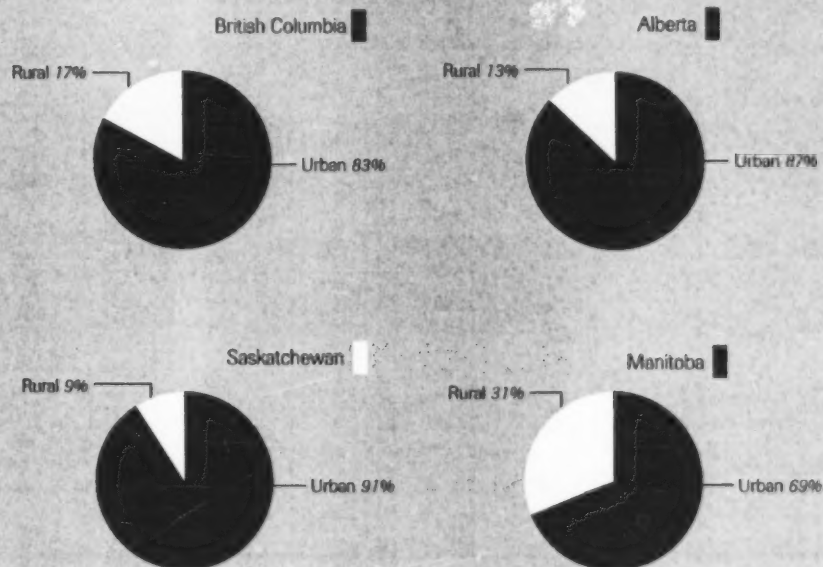
BEHIND THE NUMBERS

A century ago, the West was predominantly rural. Over time, more and more people moved from rural areas to cities. Currently four out of every five people reside in an urban community. Urban areas—large cities in particular—have been responsible for the vast majority of demographic growth in recent years.

Similarly, the bulk of employment growth in western Canada has taken place in urban centres. From 2001 to 2007, total employment in the West grew 16.6%—an increase of 757,000 jobs. Urban areas were responsible for 84% of this increase. The proportion of employment growth that occurred in urban centres ranged from 69% in Manitoba to 91% in Saskatchewan.

Contribution to Employment Growth, Urban and Rural, 2001-2007
(% of total employment growth)

Source: Statistics Canada





Aerial photo of Moose Jaw, Saskatchewan

Federal Budget 2008: **TAX FREE** Savings Accounts

In its recently released 2008 Budget, the federal government introduced something called the Tax Free Savings Account (TFSA). The stated purpose of the initiative is relatively straightforward—to encourage Canadians to save. The TFSA is different in many ways from a Registered Retirement Savings Plan (RRSP). The government likened the TFSA to “an RRSP for everything else in your life.”

While this initiative is a first in Canada, it is not a new idea. Similar programs exist in the United States and the United Kingdom, and the rationale and design of this type of plan was put forth by the C.D. Howe Institute in 2001.

The “Nuts and Bolts” of the TFSA:

Starting in 2009, Canadians aged 18 and older can save up to \$5,000 every year in a TFSA.

Contributions to a TFSA will not be deductible for income tax purposes but investment income, including capital gains, earned in a TFSA will not be taxed, even when withdrawn.

Unused TFSA contribution room can be carried forward to future years.

Funds can be withdrawn from the TFSA at any time for any purpose.

The amount withdrawn can be put back in the TFSA at a later date without a reduction in contribution room.

Neither income earned in a TFSA nor withdrawals will affect one's eligibility for federal income-tested benefits and credits.

Contributions to a spouse's TFSA will be allowed and TFSA assets can be transferred to a spouse upon death.

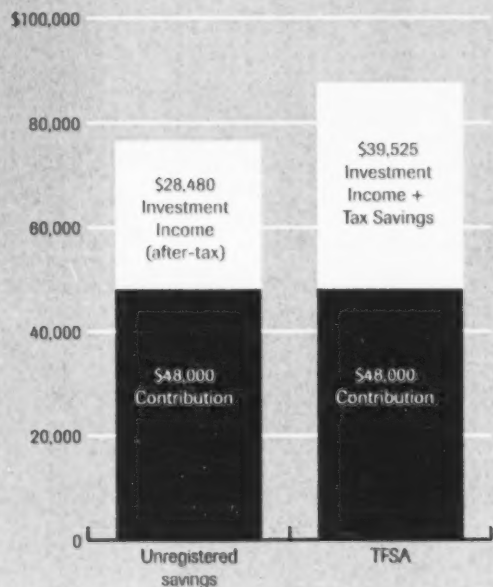
Suppose a person put aside \$200 per month in a TFSA for 20 years (\$48,000 in total contributions), earning a return of 5.5% per year. Compared to investing the money in an unregistered savings vehicle, the TFSA would generate tax savings of over \$11,000 (see adjacent figure).

Saving is important for both individuals and the economy as a whole. At the individual or household level, savings are a buffer against uncertain future income and expenses. For example, a person who experiences an accident or job loss can rely on past savings to cover living expenses and other financial obligations. In the aggregate, saving is important for economic growth and development, as savings are used to finance investment in new capital.

Unfortunately, saving by Canadian households has plummeted. In 1990, households put away roughly \$7,500 of their annual income. Today, the figure is closer to \$1,000. Nationally, saving as percentage of disposable income is down to about 1%, compared to 10% in 1990.

TFSA vs Unregistered Savings

Source: Department of Finance



Note: This example is based on combined federal and provincial tax savings on a \$200 monthly contribution over 20 years and a rate of return of 5.5%. For unregistered savings, it is assumed that the average tax rate on investment income is 21%. Investment income is comprised of 40% interest, 30% dividends, and 30% capital gains. The account holder is assumed to be a middle-income earner.

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The Continuing Transformation of the West

by Brett Gartner, Senior Economist

It has been five years since the Canada West Foundation released the last edition of the State of the West, its compendium of demographic and economic data about the individual western provinces, the region as a whole, and how it compares to the other parts of Canada. Since then, there has been considerable change in western Canada, including developments in immigration, interprovincial migration, the Aboriginal population, urbanization, agriculture, employment, economic growth, and international trade. Several of the trends discussed in the previous edition have continued, while other new trends have emerged.

Economic strength within Canada has shifted westward, and the West's relatively strong performance in terms of real economic growth, job creation, and low unemployment has been well documented. The region's strong economy has attracted both interprovincial migrants and international immigrants, new residents that are changing the face of the West. Interprovincial migration has been a source of population growth for western Canada as a whole. Over the past 25 years, the region attracted 629,000 more people than it lost, while the other parts of Canada combined suffered a net loss. The West's share of total immigrants to Canada has increased in recent years and is virtually the same as the region's share of the national population.

Western Canada's relatively large Aboriginal population is transforming the region as well. Almost 60% of all Aboriginal people in Canada live in the West, roughly twice the region's share of the national population. The Aboriginal population is younger and has grown faster than the non-Aboriginal population. In 2006, 32% of Aboriginal people were under 15, compared to 17% of the non-Aboriginal population. Western Canada's Aboriginal population grew 16% between 2001 and 2006, almost three times faster than the non-Aboriginal population.

Although Aboriginal unemployment rates have dropped in recent years, the unemployment rate facing Aboriginal peoples is more than double that of non-Aboriginals. Among Aboriginal peoples living on reserves, the rate of unemployment is more than five times higher than that of non-Aboriginals. It is in the best interests of everyone in the West that the education and labour market outcomes of Aboriginal youth are improved and for them to become more fully engaged in the workforce.

The West, indeed all of Canada, is in the midst of a major demographic shift that has far reaching implications for

our economy and society—population aging. This trend is not unique to Canada nor has it taken us by surprise. While population aging is a predictable and stable trend, it is a phenomenon that demands a significant policy response.

The median age in the West has increased from 27.9 to 37.6 over the past thirty years. It is projected to increase by about another six years by 2031. The proportion of the western population that are under the age of 15 has dropped steadily, from roughly 30% in 1971 to less than 20% in 2007. The first of the baby boomers turns 65 in 2011. Not coincidentally, working aged people as a percentage of the total population will start to decline in 2011 and is projected to fall considerably through to 2031. The number of seniors in the West will more than double by then.

Population aging has serious implications for the economy. The West is already facing a shortage of skilled workers. This will only get worse as the growth in the labour force slows. Two important drivers of economic growth are labour force growth and increased productivity. As labour force growth stalls, productivity growth will become even more important to improvements in our overall economic well-being. But, as we all know—or should know by now—Canadian productivity growth has been far from stellar.

Some of the voids in the labour market will be addressed by immigration, increased participation of Aboriginal peoples, and new approaches to retirement. However, higher levels of labour productivity will be absolutely necessary if we want increases in our economic well-being to continue. Furthermore, improved productivity growth will be required to pay for higher health care and pension costs associated with a greying population. Health care is the largest single component of provincial government program spending, as well as the fastest growing. Recent figures show roughly 40% of all health expenditures in the West are directed to seniors, 13% of the population. The pressures on the health care system—and public finances—will only increase as time goes on.

These are only some of the demographic and economic trends taking place in the West, changes that present both challenges and opportunities. The transformation of western Canada over the last several decades has been pronounced and permanent, and the region will evolve further as a wide range of forces continue to reshape the region and its people. ■